Distr.
GENERAL

GC.6/19
15 September 1995

United Nations Industrial Development Organization

ORIGINAL: ENGLISH

GENERAL CONFERENCE

Sixth session
Vienna, 4-8 December 1995
Item 10 (e) of the provisional agenda

REGIONAL PRIORITIES AND PROGRAMMES: EUROPE AND NEWLY INDEPENDENT STATES

UNIDO activities in Europe and the Newly Independent States of the former Soviet Union

Report by the Director-General

Summary

Reports on recent trends in countries of Central and South-eastern Europe and the Newly Independent States of the former Soviet Union (NIS) and on activities carried out by UNIDO in 1994 and the first half of 1995 for the benefit of those countries.

CONTENTS

		Paragraphs	*Page*
Introduction		1 - 2	2
Chapter			
I.	A DIFFICULT TRANSITION — A MODEST OPTIMISM	3 - 5	2
II.	UNIDO SERVICES	6 - 17	2
III.	ACTION REQUIRED OF THE CONFERENCE	18	4

V.95 56705 (E) (h:\1995\pmo.9)

Distr.: 25 September 1995

Introduction

1. A report on the activities carried out by the Europe and NIS programme of UNIDO in 1994 was included in the Annual Report of UNIDO for that year (IDB.14/10, chap. III.E). The present report provides an update of that text to reflect developments that took place in the first half of 1995.

2. The Europe and NIS programme of UNIDO covers the region of Central and South-eastern Europe encompassing 15 countries ("Europe"), together with the 15 Newly Independent States of the former Soviet Union ("NIS"). Most of these countries have moved towards market-based economic policies and desire increased integration in the global community. Recent economic developments thus reflect the transformation of past systems, institutions, modes of production and patterns of economic exchange. The degree of success in the progress of economic and industrial transition has varied widely, depending to a large extent on the risk-taking attitude of decision makers, the flexibility of the industrial labour force, the scope and quality of the institutional framework, and the capacity of the economy to adjust itself to the requirements of new markets.

I. A DIFFICULT TRANSITION — A MODEST OPTIMISM

3. According to 1994 figures, an increasing number of the countries in transition in Europe have started to show signs of recovery. The gross domestic product (GDP) has been rising in most of the countries. The best results have been achieved by the group of Visegrad countries (Czech Republic, Hungary, Poland and Slovakia), as well as by Albania, Estonia, Romania and Slovenia. Industrial production, which had fallen markedly over the last five years, recorded the first positive growth rates. In aggregate, the rise in East European GDP was around 2 per cent, but there was considerable variation among individual countries ranging from 4.5 to 5 per cent in Poland, Slovakia and Slovenia, 2 to 2.5 per cent in the Czech Republic, Hungary and Romania, and close to zero in Bulgaria and Croatia.

4. Whereas the upward development trends were largely strengthened in the countries of Central and South-eastern Europe, the gap between them and the countries of the former Soviet Union (excluding the Baltic States) continued to widen. In the Russian Federation, GDP further declined as compared to 1993 although the pace of decline slowed down. Also in other countries (Belarus, Ukraine) a considerable fall was recorded in economic activities.

5. The outlook for 1995 is more optimistic. Following the cyclical upturn of the Western economies, the positive economic trends in Eastern Europe are likely to be strengthened. In the former Soviet Union countries the stabilization programme should bring the first positive results in terms of a substantive reduction of inflation, a slowing down of the pace of economic decline, stabilization of industrial production, and even some modest recovery in some crucial industrial sectors. The preliminary estimates for the first half of 1995 confirm in general the above forecast. In a number of countries of Central and South-eastern Europe the gross national product (GNP) growth rate, industrial output and exports have largely exceeded the levels of 1994.

II. UNIDO SERVICES

Challenging market for UNIDO services

6. The painful process of transition towards market economy in the countries concerned revealed huge needs for international cooperation in modernizing their industries, in upgrading their managerial and technological capabilities, in making manufacturing enterprises profitable and competitive and in using technologies that are more environment friendly and less energy intensive. Virtually all aspects of their industrial development—from industrial policy formulation to measures for increasing enterprise competitiveness—need support through international cooperation. Accordingly UNIDO expanded the range of technical cooperation services to match the specific requirements and requests of the concerned actors: Governments, industrial complexes and enterprises, and industrial research centres and other institutions.

7. UNIDO services in support of industrial recovery and restructuring in the region constitute an important complementary ingredient of overall international efforts to assist the countries in smoothing the transition process expediting the build-up of resilient structures and growth in national economies and facilitating investment and trade flows.

Matching services with needs

8. Through mechanisms such as joint committees, UNIDO intensified the policy dialogue with key decision makers in the countries of the region. Matching expressed demand with the expertise available in the Organization points to five core priority areas for the provision of services to the region: industrial restructuring, enterprise development, environment and energy, investment promotion and industrial policies and

strategies. In addressing these, small and medium enterprise (SME) development, institution-building and human resource development have been fully integrated. These priority areas are complemented by subsector-specific support to basic socio-economic development, including for the integration of women.

9. Special emphasis was placed on the development of programmes and projects that (a) are replicable within the region with a view to meeting the high demand for UNIDO services in a cost-effective manner and (b) help create new regional industrial linkages.

10. Various UNIDO services rendered to other regions were adapted for application in the economies in transition. This was the case for services related to quality management and standardization, industrial investment project preparation and appraisal, and industrial safety. In these and other areas, economic and technical cooperation was fostered among the countries of the region.

Financial strategies and support

11. The growing number of requests for UNIDO technical cooperation called for intensified efforts to mobilize new, non-traditional sources of funding for UNIDO services in the region. In the past few years financial support from various sources could be successfully secured for UNIDO projects in support of industrial development and restructuring. Although these funds are not sufficient to satisfy demand, they were of paramount importance for a successful delivery of UNIDO services in a range of crucial fields. Funding was provided by: the UK Know-How Fund, in particular for projects related to enterprise restructuring in Hungary and Poland; the Government of Austria for the promotion of cleaner production centres and environmental management in pulp and paper and tanning industries in the Czech Republic and Slovakia and other countries of the Danube River Basin; Nordic countries for assistance to the Kaliningrad region of the Russian Federation in preparing development strategies; the Government of the Netherlands for the preparation of regional development strategies in Hungary; the Government of Saudi Arabia for analysing the industrial potential and preparing support strategies for Azerbaijan, Kazakhstan, Kyrgyzstan and Uzbekistan; the Government of Italy for timber frame buildings in Croatia; the Government of France for industrial investments in agro-based industries in Central Europe; the Government of Switzerland for upgrading the footwear industry in Hungary; the Government of Japan for projects associated mainly with promoting environmentally friendly technologies and investment opportunities in Hungary, Poland, Romania, Slovakia and Central Asian countries; the European Union (PHARE) for subcontracting and partnership exchanges in Slovakia; the World Bank for a training programme for Russian managers.

12. An important share of UNIDO-executed projects in the region is financed by the United Nations Development Programme both from the national indicative planning figure (IPF) and from the Special Industrial Services programme. One example is a project executed in Romania under IPF financing for the promotion of small private enterprises: UNIDO helped the Government to establish a business development centre which, after three years, expanded as a network of centres focusing on the needs of the local private sector throughout the country. This project concept is now promoted in other selected NIS countries. Other IPF-financed large-scale projects include one on restructuring and privatization being implemented in Uzbekistan and a new project on the promotion of SMEs for Slovenia.

13. Increasingly UNIDO services are provided through self-financed trust funds. The financing of investment promotion forums organized recently for various regions of the Russian Federation are examples of this new development. Further proposals submitted by the Government of the Russian Federation under this type of financing are under consideration in the field of environmental protection from oil and oil product pollution, the promotion of technological innovation and the promotion of SMEs.

14. In enlarging the pool of financial resources for its services in the region, UNIDO will continue to strengthen its tripartite cooperation with recipient countries and with the donor community, including both multilateral financial institutions such as EU, World Bank, European Bank for Reconstruction and Development and individual donor countries.

Focused country strategies

15. This year UNIDO country support strategies were prepared for Azerbaijan, Kazakhstan, Kyrgyzstan and Uzbekistan and are in an advanced stage of preparation for Croatia and Slovakia. These strategies were produced by teams of national and international experts and UNIDO staff in close cooperation with the Governments. In addition, country programming briefs were prepared for all countries of the region.

Performance

16. In 1994, UNIDO managed both to significantly increase project approvals for the region (53 per cent in value terms over 1993) and to mobilize new, non-traditional sources of funds for technical cooperation programmes and projects. The latter included new funds oriented to the region by various donor countries as well

as new international financing schemes created specifically to assist the region. The elaboration by UNIDO of a targeted programme in support of industrial development in Europe and NIS proved to be crucial for mobilizing additional funds. In this context, the integrated and multidisciplinary technical cooperation programme for Bosnia and Herzegovina—which was partly funded in 1994—provides a good example.

17. In the first six months of 1995, UNIDO activities in the countries in transition recorded further growth by 8.5 per cent as far as new approvals are concerned, and by 20.5 per cent as to net approvals, as compared with the corresponding period of 1994. The technical cooperation projects approved in 1995 were spread widely in the region, covering 17 countries. Some projects were of a regional dimension. Technical cooperation concentrated on the priority needs of the clients in the region, i.e. on supporting economic recovery and on strengthening market principles and mechanisms in industrial development.

III. ACTION REQUIRED OF THE CONFERENCE

18. The Conference may wish to take note of the information provided in the present report.